

Business Opportunities: Avoiding Vending Machine and Display Rack Scams

Business Opportunity

Service a company-established vending machine/display rack route. Part-time. No experience required. No selling. Earn \$5,000+ per month.

You may find newspaper advertisements like this appealing, especially if you're looking for part-time employment to supplement your income. But be cautious. While some business opportunities servicing vending machines or display racks are legitimate, many are not. These are risky investments, for which there are no guarantees.

Some companies have been charged with misrepresenting the earnings potential and the ease and speed with which machines can be delivered, maintained, located, and repaired. Companies have also been charged with providing phony references and failing to provide key pre-investment information the agency requires.

There's no mystery to how vending machine and display rack business opportunities work, what you should look for when you consider such an investment, and how you can avoid unscrupulous business opportunity promoters. And several organizations can help if you think you've been defrauded.

What is a vending machine or display rack business opportunity?

A business opportunity may involve food vending machines, fax machines, amusement games, or racks with items for sale such as small toys, greeting cards, or cosmetics. The machines or racks may be in malls, airport terminals, bowling alleys, or other public facilities.

Typically, your responsibilities involve cleaning and restocking the machines or racks, making sure they're in good repair, and

collecting the money from the machines. You may earn a portion of the proceeds from the products or services. Some promoters may tell you that you'll earn a specific level of income or guarantee a minimum revenue. Others may claim their income projections are averages based on incomes of current distributors.

Promoters may promise to help you operate the business opportunity. For example, they may:

- Provide vending machines or display racks already in established locations, or find locations for you;
- Offer repair services to fix damaged machines, or replacements for damaged racks; or
- Relocate the machines or racks to more profitable locations at your request.

What problems may come up?

Some consumers have had problems related to misrepresentation of earnings and support services. Consider the following complaints received about some vending machine and display rack business opportunities.

- After investing thousands of dollars in vending machines, display racks, and products for resale, some investors discovered that the promoters did not deliver the equipment they promised.
- Some promoters did not provide support services as represented in their sales pitches. For example, some promoters did not make good on their promised locations for vending machine routes; others relocated machines to different—but not more profitable—locations.
- Some promoters would not hire a repair service to fix broken machines or were not willing to replace damaged racks. In these instances, investors paid for repairs or bought new display racks with their own money.
- Some investors did not earn the promised level of income.
- Some promoters refused to honor requests for promised

refunds.

When is a business opportunity a franchise?

A business opportunity is considered a “franchise” if:

1. You will sell or distribute goods or services that are supplied by either the company or a designated supplier.
2. The company will help you by securing locations or sites for the vending machines or display racks.
3. You are required to pay the company \$500 or more when you sign the contract or within six months after you begin operations.

If the company’s business opportunity constitutes a franchise, the company must give you a disclosure document before you sign an agreement or invest any money. Required by the FTC Franchise Rule, the Franchise Disclosure Document provides important information about a business. Pay special attention to the sections detailing:

- the business experience of the company and its directors;
- any lawsuits brought against the company or its directors by franchisees, and suits alleging fraud;

- fees you will have to pay and the conditions under which any fees or deposits will be returned to you;
- the total number of franchises, the names and addresses of franchisees in your area, and the number of franchises terminated or not renewed during the previous year;
- the company’s balance sheet for the most recent fiscal year and an income statement and statement of changes in financial position for the three most recent fiscal years; and
- substantiation for any claims about your potential earnings or the earnings of existing investors.

This information may help you decide whether the company is likely to stand behind its promises. It also may help you determine the probability of your success.

How can I protect myself?

Taking certain precautions can minimize your risk of investing in a fraudulent vending machine or display rack business opportunity:

- Check out the company with the Bureau of Consumer Protection and the Better Business Bureau where you live and where the business is headquartered. These organizations can tell you if there are unresolved complaints

about the company representing the business opportunity. While complaints may alert you to problems, the absence of complaints does not necessarily mean the company is legitimate. Unscrupulous companies may settle complaints, change their names, or move to avoid detection.

- Try to verify claims made by the company and the company's references. Visit existing locations and the anticipated locations for your machines or racks. You may be able to determine from conversations with shop owners and managers whether the machines and racks are, or will be, successful. Ask them how many people come through their establishment daily and what these customers are interested in buying. Ask other investors in your area about their experiences with the company.
- Call the Secretary of State in the state where the company is headquartered to determine how long it has been in business. In Wisconsin, call the Department of Financial Institutions, Corporations Division: 608/261-7577.
- Ask the company to substantiate in writing all earnings claims. Be aware that investors' incomes vary with location, usage, products sold, and

demand for the products. The fact that investors have earned a "high" income in one community or state is no guarantee that you'll do as well in your territory.

Entering into any business opportunity may require a substantial financial investment. You may wish to consult an attorney, accountant, or other business advisor before you sign any agreement or make any upfront payments. Your attorney can review the company's contract and advise you on how best to proceed. If the company requires a deposit, you may want your attorney to establish an escrow account where the money will be maintained by a neutral third party.

Where can I complain or get more information?

If you think you've been defrauded in a vending machine or display rack business opportunity, contact the company and ask for your money back. Let the company know that you plan to notify officials about your experience. Keep a record of your conversations and correspondence. If you send documents to the company, make sure you send copies, NOT originals. Send correspondence by certified mail, return receipt requested to document what the company received.

If you cannot resolve the dispute with the company, several organizations may be able to help you. Your phone book will have the complete names, addresses, and phone numbers for these organizations:

- The Bureau of Consumer Protection at (800) 422-7128.
- The National Fraud Information Center (NFIC) at (800) 876-7060, 9 a.m.-5:30 p.m. EST, Monday-Friday, or at <http://www.fraud.org> on the Internet. NFIC is a private non-profit organization that operates a consumer assistance hotline to provide services and help for consumers who may want to file complaints.
- Your local Better Business Bureau(BBB) and the BBB where the company is located.
- Your local Postmaster. The U.S. Postal Service investigates fraudulent mail practices.
- The advertising manager of the publication that ran the business opportunity ad.
- The Federal Trade Commission. While the Commission cannot help resolve individual disputes, the agency can take action if there is evidence of a pattern of deceptive or unfair practices. Write to: Consumer Response Center, Federal Trade

Commission, Washington D.C.
20580.

For more information, or to file a
complaint, contact the Bureau of
Consumer Protection at:

(800) 422-7128

FAX: (608) 224-4939

TTY: (608) 224-5058

E-MAIL:

datcp hotline@datcp.state.wi.us

WEBSITE:

<http://datcp.state.wi.us/>

(From the FTC brochure "Business Oppor-
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